AL. 1, 1233
c. 2

August, 1994

CANADIANA
OCT 21 1994

1994 – 1995 Milk and Cream Quota Policy Procedures and Guidelines

Alberta
DAIRY CONTROL BOARD
WETASKIWIN, ALBERTA
T9A 0S7
Telephone: 361-1231
Fax: 361-1236

Alberta Dairy Control Board Members

James P. Heron, Chairman
5201 - 50 Avenue
Wetaskiwin, Alberta
T9A 0S7
Bus. 361-1231 Fax 361-1236

Thor Andreassen
Box 1061
Stony Plain, Alberta
T0E 2G0
Res. & Fax 963-2787

Lucille Dougherty
835 - 8 St. West
High River, Alberta
T1V 1B2
Res. & Fax 652-2191

James Hunter
Box 716
Medicine Hat, Alberta
T1A 7E4
Res. 529-0803 Fax 529-0836

Terry Murray
Box 1888
Wainwright, Alberta
T0B 4P0
Res. & Fax 842-2336

Lloyd Johnston, Secretary-Manager
5201 - 50 Avenue
Wetaskiwin, Alberta
T9A 0S7
Bus. 361-1231 Fax 361-1236

Milk and Cream Quota Policies, Procedures and Guidelines

For the 1994 - 95 Quota Year

Table of Contents **Page**

Introduction 1
Definitions 1
Registration 3
Shipping. 3
Cream Producers 3
Market Share Quota 4
Fluid Quota 5
Transfer Principles 6
Transfer Procedures 7
Quota Exchange. 10
Dates of Operation 10
Selling 10
Buying 11
Clearing Price 12
Allocation. 12
Notification. 13
Payment. 13
Federal Dairy Policy 13
Skim-off Fluid Milk 15
Levies. 16
Over-Quota Levy Refund 17
Appeal Procedures 18
Power of Attorney 19

Introduction

This booklet outlines the major policies, procedures and guidelines for the dairy year, August 1, 1993 to July 31, 1994.

This policy was developed by the Alberta Dairy Control Board in consultation with Alberta Milk Producers' Society, processors, Policy Committee, other industry stakeholders and individual producers. We encourage producers to familiarize themselves with the policies, procedures and guidelines.

This booklet is prepared for information purposes. If you need assistance in interpreting specific policies, contact the Dairy Control Board staff. Producers are encouraged to stay abreast of market changes and adjust production accordingly.

Definitions

A. **Board** – means the Alberta Dairy Control Board.

B. **Catastrophe** – includes severe illness or death of the registered producer, sudden death of a significant part of the producing herd, destruction of production facilities, severe infection of an uncontrollable disease or a disease which requires slaughter by health authorities.

C. **Direct Transfer** – is the transfer of quota directly between two producers. It excludes transfers through the Quota Exchange. In all cases, transfers require Board approval.

D. **Fluid Producer** – is a producer who holds fluid quota.

E. **Fluid Quota** – is the volume of milk in litres per day a producer is entitled to deliver and receive class 1 price for that portion of sales in the month. Fluid quota is issued in 5 litre portions.

F. **Going Concern** – refers to the production facilities (barn, milk house, milking area and the land on which the facilities are located), the milking herd and quota which continues to operate at the same location.

G. **Immediate Family** – includes a father, mother, husband, wife, son, daughter, son-in-law or daughter-in-law.

H. **Industrial Producer** – is a milk or cream producer who holds only market share quota.

I. **Market Share Quota** – is the producers' share of the Canadian industrial market in kilograms of butterfat per year.

J. **New Producer** – means a producer who has registered with the Board and has not held active quota for the past two years.

K. **Producer** – is any person who produces milk from a cow or herd of cows under his control and sells the milk to a processor, is registered with the Board and holds quota issued by the Board.

Registration

All producers must register with the Board. Only one registration number shall be allotted to each production unit even if there are multiple owners.

Each production unit must be separately registered even when an owner controls several production units.

Registration forms are available at the Board office.

Non-registered producers will be assessed over-quota levies on all deliveries.

Shipping

Producers are assigned to a specific plant and must make deliveries to that plant unless otherwise dealt with by the Board. Producers wishing to change their plant assignment must apply in writing to the Board, all changes will take effect on the first of any month. Milk producers are expected to make deliveries at least every second day.

Cream Producers

Cream producers must have market share quota for cream deliveries.

Market share quota will be returned to the provincial reserve after **deliveries have been interrupted for six months.**

Producers may convert to milk production if farm premises meet the requirements of the Dairy Industry Act; arrangements for a

processor to receive milk have been made; a licence has been obtained from the Board; and there is enough production to warrant pickup on an every other day basis.

Market Share Quota (MSQ)

MSQ is issued in direct relation to the amount of industrial milk and cream needed to meet the demand for butterfat. A change in demand results in a change in the MSQ. Increases or decreases in MSQ may occur, however, a producers' share of the domestic market will not change.

MSQ allotment is reported to producers in September. We recommend that producers compare this quota allotment with expected deliveries and make plans to adjust deliveries to 100 percent of quota.

A maintenance requirement of 90 percent of MSQ is set to ensure sufficient milk supply to meet demand. A producer must deliver at least 90 percent of MSQ to retain total MSQ next year.

When deliveries fall below 90 percent of effective MSQ, quota for the following year is adjusted to 111.1 percent of current deliveries.

Example: assumes no transfers or changes.

quota = 1000 kg
shipments = 800 kg
new quota 800 x 1.111 = 889 kg

We encourage producers who expect deliveries to be less than 90 percent of MSQ, to transfer the excess quota to another

producer through the Quota Exchange or by direct transfer.

When a producer discontinues marketing of industrial milk for **two consecutive months** the MSQ reverts to the provincial reserve.

Fluid Quota

Fluid milk quota is the specific number of litres of milk that must be delivered each day.

To ensure adequate supplies of fresh milk at all times, at least 90 percent of fluid quota must be delivered in the four month period, September 1 to December 31, to retain the full allotment for a subsequent year. Average daily deliveries are calculated by dividing deliveries by 122 days. Fluid quota will be reduced by the amount deliveries are below the 90 percent minimum requirement.

Caution: Producers who plan to sell fluid quota to avoid quota adjustment must have the transfer complete by December. To meet the December 1 deadline, direct transfer applications must be received by the Board on or before November 15 and Quota Exchange by November 22. If a producer delivers milk and holds fluid quota for less than the 122 days, the 90 percent maintenance will be calculated by dividing the fluid quota volume by the number of days the fluid quota was held.

The Board may cancel fluid quota if a producer fails to make deliveries for **two consecutive weeks**.

Fluid quota, like MSQ, can be transferred to any licenced milk producer in Alberta. If an imbalance of production to market occurs in any area, the Board may limit the transfer of quota.

Transfer Principles

1. The Board believes producers are the best judges of how and where quota should transfer. Production will likely occur on the most efficient farms when minimum restrictions exist. To meet this objective, we have simplified transfer procedures.
2. Through a resolution of Alberta Milk Producers' Society, a majority of producers have expressed a desire to keep the Quota Exchange and make it more functional. To accomplish this goal, a portion of every transfer must be offered through the Quota Exchange.
3. Producers can directly transfer to another producer any portion of their allotted quota either fluid or MSQ.
4. "Going concerns" are exempt from offering quota on the Quota Exchange.
5. Producers may directly transfer any amount of quota to an immediate family member. This transfer will be exempt from the Quota Exchange provisions if the transferee is not a registered producer.
6. "Quota" is not tied to cows.

7. A producer must be registered with the Board and have certified premises before any quota will be transferred.
8. A producer may not sell MSQ acquired in the same quota year. This applies independently to used and unused MSQ. This procedure is intended to discourage speculation.
9. Existing practice does not allow quota sold by auction to be transferred.
10. The Board reserves the right to refuse any transfer if it appears to be motivated by speculation. A producer may be asked to appear before the Board to justify the transfer request.
11. The Board reserves the right to change transfer policy any time if the new policy does not meet the needs of producers or the industry.

Transfer Procedures

1. Application for the transfer of quota shall be submitted to the Board on forms supplied by the Board and include all the information required including names and signatures of the producers involved in the transfer and a corporate seal if appropriate.
2. The Board must receive transfer applications at least **two weeks** prior to the date of transfer. All transfers become effective on the first day of a month following approval of the transfer.

3. The Board will acknowledge approval in writing, to the producers involved in the transfer. **Only after written notice is received should the settlement for quota be completed.**
4. The MSQ is subject to adjustment when a complete transfer occurs. Used MSQ is increased by an amount that prevents a sleeve levy charge. A corresponding decrease in unused MSQ results. The adjustment is calculated by multiplying deliveries by 1.04167 = kg used MSQ. Producers may opt for the quota adjustment or pay the sleevy levy directly to the Board.
5. Direct quota transfers are subject to the following conditions: A producer selling quota is required to offer a minimum of 20 percent of the total transfer on the Quota Exchange. A producer who transfers 100 units to another producer must offer an additional 25 units on the Quota Exchange (20% of 125 = 25). The 20 percent applies independently to fluid, unused and used MSQ. For example: 100 litres fluid, 1,000 kg unused MSQ and 500 kg used MSQ are transferred. A minimum of 20 litres fluid, 200 kg unused and 100 kg used must be offered on the Quota Exchange. The approved direct transfer will proceed independent of the successful sale of the 20 percent portion on the Quota Exchange. The 20 percent portion of the transfer must be offered on the Quota Exchange to be effective on the same date

as the direct transfer. Producers must specify the minimum acceptable price for quota offered on the Quota Exchange. One additional opportunity to offer the quota for sale on the Quota Exchange will be available if the quota does not sell on the Quota Exchange in the first month. **If quota does not sell in the 2nd month, quota will be priced at 50% of the previous month's clearing price. This procedure is necessary to ensure producers will receive the clearing price of the Quota Exchange and will not lose quota.**

6. Producers who sell quota on the Quota Exchange shall state the minimum price they are willing to accept and the volume they want to sell.
7. Producers who buy quota through the Quota Exchange shall state the maximum price they are willing to pay and the volume they want to buy.
8. Producers whose bids are successful on the Quota Exchange must make payment to the Board within the time specified. If a producer fails to make payment, the Board will suspend participation on the Quota Exchange for 12 months.
9. Producers who sell quota can expect payment from the Provincial Treasurer approximately one month after the transfer date.

Quota Exchange

The Board will operate three Quota Exchanges; covering fluid, unused MSQ and used MSQ. The Quota Exchange provides producers with a means of transferring quota and offers a practical means to adjust quota to expected deliveries.

Date of Operation

All bids and offers received by the Board office prior to 4:30 p.m. on the 22nd day of the month in which the Exchange is operating will be accepted. A fluid Exchange will operate monthly. MSQ Exchanges will only operate monthly between September 22 and June 22 inclusive.

All transfers through the Quota Exchange will be effective on the first of the month following the Exchange.

Selling on the Exchange

A producer submits an offer stating the volume and the minimum acceptable price. Offers to sell at or below the clearing price will receive the clearing price. Offers to sell above the clearing price will not be successful and will be returned to the producer to be delivered to in the current month.

Buying on the Exchange

A producer submits a bid stating the volume and the maximum price they are willing to pay. Bids to buy at or above the clearing price will pay the clearing price. Bids below the clearing price will not be successful.

Caution: A producer may be successful in buying 100 percent of the bid. Extremely large bids are of no advantage to the amount of quota allocated, nor will they influence the clearing price.

Submitting a Bid or Offer

A producer may submit his instructions to the Exchange by the following methods:

1. Facsimile: Write message, complete with name, address, Canadian Dairy Commission number and **signature**. Fax the document to 361-1236.
2. C.N.C.P. Telecommunications: Phone 1-800-663-2025, ask the operator to send a message to the Alberta Dairy Control Board at 037-42565. State message; example "sell 100 kg unused MSQ at $20.00; also give your name as registered with the Board and the Canadian Dairy Commission number". Have the operator read back your message to ensure accuracy. Producers are responsible for the transmission cost.
3. Letter: Write message complete with name, address, Canadian Dairy Commission

number and **signature**. Mail to the Board at 5201 - 50 Avenue, Wetaskiwin, Alberta, T9A 0S7.

Caution: The Board assumes no responsibility for letters that do not reach us within the time deadline.

4. Visit the Board office.

Caution: Any fax or letter must have the quota holder's signature on the bid or offer, otherwise it will not be accepted.

Determining the Clearing Price

The Board sets the clearing price after the Exchange closes. The clearing price is set at the price where the smallest difference exists between the accumulated volume offered for sale and the accumulated volume bid to buy.

To determine the clearing price of MSQ, the bids to buy are adjusted to five percent of annual MSQ. This is necessary to avoid price distortion from excessively large bids. Fluid bids will be adjusted if price distortions might occur due to abnormally large bids.

Allocation

MSQ will be allocated on the basis of 50 kilograms to each successful bidder. Any remaining quota will be allotted in direct proportion to the annual MSQ held by the bidder.

Fluid quota will be allocated on the basis of 20 litres to each successful bidder. Any

remaining quota will be allocated in direct proportion to fluid quota held.

Allocations will not exceed a producers' bid.

If there is not enough quota to meet the minimum allocation, producers will receive an equal share of available quota.

Notification

The Board will send letters to all participants after the Exchange closes, to notify them of the status of their bid or offer.

The Board sets the clearing price the next working day after the Exchange closes, therefore, phone calls requesting results should be delayed a few days so we may provide more complete information.

Payment

Successful buyers must pay the Board by the date specified in the notification letter. Failure to make payment will result in loss of quota and Exchange privileges.

Successful sellers will receive payment from the Provincial Treasurer approximately one month following the date of transfer.

Federal Dairy Policy

The Canadian Dairy Commission, on advice from the Canadian Milk Supply Management Committee, may alter the total

market share quota level during the year to keep production in line with demand.

Federal Subsidy

Subsidy on qualifying shipments of industrial milk and cream is $1.508 per kilogram of butterfat. The Canadian Dairy Commission in Ottawa makes payment directly to producers. Subsidy is paid to registered producers on deliveries up to approximately 96 per cent of MSQ.

There is no minimum delivery requirement to qualify for subsidy, however, the CDC sets a maximum limit for subsidy eligibility for milk and cream deliveries. Producers may receive subsidy on qualifying deliveries up to 18,000 kilograms of butterfat in one dairy year. Two or more producers who jointly own a dairy farm, having a substantial financial interest and actively engaged in the dairy operation, may qualify for subsidy eligibility over the normal maximum for individual operators. In the case of a partnership or corporation a subsidy entitlement may be authorized for each partner working full time at the dairy operation, to a maximum of three partners or to a maximum of four individuals where they are all members of the immediate family.

Subsidy is not paid on fluid deliveries, however, a fluid producer may receive subsidy on qualifying industrial deliveries.

To qualify for maximum subsidy entitlement as a partnership or corporation an

application must be completed and filed with the Canadian Dairy Commission. Application forms are available from the Board office in Wetaskiwin. Producers already approved will receive applications for renewal from the CDC at the beginning of each dairy year.

Skim-off MSQ from Fluid Deliveries

Skim-off results from fluid sales using less butterfat than is delivered to a processor. This butterfat ends up in industrial products thus MSQ is required to cover this butterfat. Fluid producers are fully responsible for the incremental skim-off produced from the fluid portion of deliveries. If skim-off increases in the current year over the previous year, MSQ for Alberta decreases. Skim-off is not calculated as part of domestic requirements therefore skim-off adjustment results in MSQ being removed from the system. Correspondingly the MSQ required for skim-off is removed from the fluid producers' MSQ allotment. This adjustment occurs each year on August 1. Skim-off is the producers' share of provincial fluid quota multiplied by the individual producers' actual skim-off. Actual skim-off is the difference between the butterfat content in fluid milk, approximately 2.61 kg/hL, and that of the raw milk delivered.

Example: Raw milk tests 3.9 kg/hL
Packaged milk tests 2.61 kg/hL
Skim-off equals 1.1 kg/hL

$$\text{1995 skim-off adjustment} = \frac{\text{Provincial Skim-off}}{\text{Provincial Fluid Quota}} \times \text{Fluid Quota} \times \frac{\text{Producers' B.F.} - 2.61^*}{\text{Provincial B.F.} - 2.61^*}$$

* The average kg/butterfat/hL in class I milk

Skim-off calculation is based on the fluid quota of record on July 1 of each year. **Producers are cautioned that the purchase of fluid quota throughout the year includes skim-off liability.**

The skim-off adjustment that will occur on August 1, 1995 will reflect the procedure described above.

Levies

The levy rates have not been determined at the time of printing. They will be available on milk statements or from the Board office.

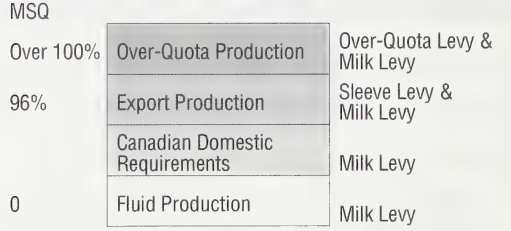
A three tiered levy system remains in effect for the current dairy year. Individual producers are able to choose the level of production and the levy rate that best suits their individual farm.

1. Milk Levy – The milk levy will be applied to each kilogram of butterfat delivered by milk producers.
2. Sleeve Levy – The sleeve levy will be applied to each kilogram of butterfat from industrial milk delivered between 96 percent and 100 percent of MSQ. The sleeve levy is used to pay the cost of exporting products that are specifically

designated for export and not required domestically.

3. Over-Quota Levy – The over-quota levy will be applied on each kilogram of butterfat delivered excess of 100 percent of MSQ or without MSQ. The over-quota levy is applied to cream deliveries in excess of 100 percent MSQ or without MSQ. The rate for milk and cream is different. Over-quota levies are used to pay the cost of exporting primarily butter and skim milk powder which exceeds Canadian requirements.
4. Skim-Off Levy – All class 1 sales are assessed a skim-off levy in addition to a three stage levy.

An individual producer's MSQ and corresponding levies is graphically illustrated below:



Over-Quota Levy Refunds

To encourage production to 100 percent of allotted MSQ, over- quota levies collected in excess of that required by the Canadian Dairy Commission will be refunded by way of

reduced milk levies in the subsequent dairy year.

Producers may be eligible to receive refunds on over quota production up to 103 percent of effective MSQ. Refunds will only be possible if some under production occurs. **Levy refunds may be less than 103 percent or may be zero.** Refunds are only possible if over quota production is needed to fill provincial MSQ. Over-quota levies collected above provincial requirements will be used to reduce milk levies in the next dairy year.

Appeal Procedures

Producers have the right to appeal directly to the Board. The Board will review and judge each appeal on its own merits.

The Board accepts catastrophe as grounds for an appeal. Catastrophe includes death or severe illness of the producer and destruction of production facilities. In addition, it covers the sudden death of the producing herd or severe infection caused by an uncontrollable disease that will require the slaughter of the animals by health authorities.

Producers must make their appeals in writing and state all relevant facts of the case. If the appeal involves health issues, a veterinarian's letter of support should be included. In other cases, the producer should support his case with third party documents.

It is the appealing producer's responsibility to provide the Board with all the facts. The

Board can only base its decision on the evidence presented.

Fluid milk quota appeals will be reviewed first by a quota committee made up of producer and Board representatives. This committee will make its recommendations to the Board which will render the final decision.

Producers should direct their appeals to the Board office in Wetaskiwin. After the appeal has been received, the Board may ask the appealing producer to appear before the Board to elaborate on their case.

Producers who expect their production to fall below the required 90 percent level for reasons of feeding, breeding or other management-related issues are encouraged to sell that portion of their quota not needed and purchase quota as required.

Power of Attorney

The Board provides a Power of Attorney document to lenders to be used in high risk loans where some security on the milk quota is deemed appropriate.

The lender may not seize the quota as it remains an asset of the Crown. However, the Power of Attorney document does give the lender the right to receive any value there may be in the quota at the time of transfer.

When a producer, who has signed a Power of Attorney, offers quota for sale, the purchaser shall place with the Dairy Board, **a certified cheque payable to the seller**. This will be deposited by the lender against the

seller's outstanding loans. This way the lender receives his security, the buyer gets the quota and the seller is assured the funds will be used to pay his debt.

This is a strong legal document. Producers are encouraged to consult their lawyers or accountants prior to signing any such document.

The Board has approved vendor financing of quota so that in addition to lending institutions, an individual may also hold a Power of Attorney.

Notes:

National Library of Canada
Bibliothèque nationale du Canada

3 3286 50546 1398

For more information please contact:

Alberta Dairy Control Board
5201 - 50 Avenue
Wetaskiwin, Alberta
T9A OS7
Phone 361-1231
144-1231 R.I.T.E. Government Number
429-2735
Fax 361-1236